

## Capital Improvements Plan Development Process

The Capital Program, as mandated by Public Law 93-198 - the Home Rule Act, has the annual responsibility of formulating the District's Six-Year Capital Improvements Plan. Each District agency is responsible for the initial preparation and presentation of an agency specific plan. Under the program, projects should complement the planning of other District agencies and must constitute a coordinated, long-term program to improve and effectively use the capital facilities and agency infrastructure. Specifically, the CIP should substantially conform to the Office of Planning's Comprehensive Plan, the District of Columbia Municipal Regulations Title 10 (Chapters 1 to 11), Planning and Development.

### Program Participants

The development and implementation of the CIP is a coordinated effort between the District's programmatic, executive, and legislative/oversight bodies.

#### *User Agencies (Programmatic)*

User agencies are responsible for:

- Monitoring the condition of a capital facility and the supporting infrastructure.
- Understanding the capital program requirements and acting within those requirements to maintain the condition of its facility.
- Appointing a Capital Liaison Officer who develops the agency's capital plan, prepares the budget request, and modifies financing proposals throughout the year.

CIP expenditure plans and capital budget requests are developed at the agency level. User agencies must review their agency's strategic plan, replacement schedules, condition assessment, specific projects, construction costs, and time schedules. Agencies then submit their proposed project requests and analysis to the Office of Budget and Planning for review. Before submission of projects, agencies perform a thorough analysis and consider fundamental questions in developing their request, for example:

- How does the project promote the goals and objectives of the agency?
- What health and safety issues are addressed?
- What is the essence of the project and what type of service will this project provide to citizens?
- Will this project benefit the District?
- What socio-economic group in the community will this project serve?

*Implementing Agencies (Programmatic)*

Implementing agencies manage actual construction and installation of a capital facility or supporting infrastructure. The implementing agencies are responsible for the execution of projects. This task includes the appointment of a Capital Financial Officer, who monitors the progress of the projects, and ensures:

- The original intent of the project is fulfilled as Congressionally approved.
- The highest priority projects established by the user agency are implemented first.
- Financing is scheduled for required expenditures.

Historically, the Office of Property Management is the implementing agency for over 90 percent of the projects in the CIP.

*Office of Budget and Planning (Executive)*

The Office of Budget and Planning (OBP) is responsible for issuing “budget call” instructions to District agencies. The OBP provides technical direction to agencies for preparing expenditures plans, project/subproject justifications, priority ranking factors, operating budget impacts, cost estimates, milestone data and performance measures. The budget call allows for updates to ongoing projects and requests for additional financing and appropriated budget authority for ongoing and new projects. The OBP coordinates project evaluations to determine agency needs through careful analysis of budget request data, review of current available and future financing requirements, and comparison of project financial needs with the current bond sales and general fund subsidies anticipated to be available for CIP purposes.

*Capital Review Team (Executive)*

The Director of the Capital Improvements Program chairs the Capital Review Team (the “CRT”) with representatives from the Chief Financial Officer, Deputy CFO for Budget and Planning, Deputy CFO for Finance and Treasury, Deputy Mayor for Planning and Economic Development, Mayor’s Chief of Staff, City Administrator, Director for Office of Planning and representatives from the District of Columbia Financial Responsibility and Management Assistance Authority (the “Authority”) and Council of the District of Columbia. The technical advisors to the team are the Directors of the Department of Public Works, the Office of Property Management, and the Office of the Chief Technology Officer. The Office of Budget and Planning - Capital Program provides analysis and all staff support to the CRT. The Capital Review Team evaluates agency requests using criteria developed by the Office of Budget and Planning. For further details see Appendix E – FY 2001 Proposed Projects by Priority Criteria and Appendix F – FY 2001 Planned Expenditures for Proposed Projects by Functional Area.

*Mayor (Executive)*

The CRT recommendation is then submitted to the Mayor for review, approval and transmittal to the Council. This fiscal year, or in a control year, the CRT's recommendation is submitted to the Mayor, Council and Authority for joint review and consensus approval.

*Council, Authority, and Congress (Legislative/Oversight)*

There are three levels of legislative/oversight review. They are as follows:

- The Council of the District of Columbia ("the Council")
- The District of Columbia Financial Responsibility and Management Assistance Authority – DCFRMAA (the "Authority")
- The Congress of the United States (the "Congress")

Each body reviews and approves the capital budget and the six-year plan.

## Authorizing Projects in the CIP

The OBP reviews and analyzes the CIP with the assistance of the Capital Review Team. The CIP is developed in the four-step process described below<sup>2</sup>:

*Steps 1: Budget Call*

In the Fall of the current fiscal year, District agencies are requested to provide the OBP with updated information regarding on going projects (increases or decreases in funding or planned expenditures), as well as requests for new projects. The instructions call for agencies to provide detailed information on a project's expenditure requirements, physical attributes, implementation timeframe, feasibility, and community impact. In addition, agencies provide project milestones, estimated costs, expenditure plans, Operating Budget impacts and a prioritized list of potential capital projects. The agency requests are disseminated to all members of the Capital Review Team for review.

*Step 2: Agency Presentations*

Each agency then presents a briefing to the CRT on their on going projects and new project requests. The purpose of the presentations are to provide members of the CRT more detailed information regarding a project's scope of work and projected cost. It also provides the CRT an opportunity to ask questions in order to determine each project's unique qualifications. Occasionally, agencies are requested to re-submit an updated request in order to provide supplemental information for review.

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<sup>2</sup> A flowchart of the CIP approval process is provided in Appendix D – Authorizing Projects in the CIP.

*Step 3: Analysis*

Project requests submitted in Step 1 undergo a thorough analysis to determine whether agency requests merit inclusion in the District's CIP. This analysis is divided into the following three primary functions:

**Function 1 - Project Justification:** Each project request is evaluated by the CRT to determine its relationship with the agency's overall mission; whether the project is duplicative of efforts of another agency's on going project; whether the project is in concurrence with the District's Comprehensive Plan; and whether the planned expenditure is an operating rather than capital expense.

In addition, project requests are reviewed based on priority criteria and must meet one or more of the factors below<sup>3</sup>:

- Health/Safety
- Legal Compliance
- Efficiency Improvement
- Facility Improvement
- Revenue Initiative
- Economic Development
- Project Close-out

**Function 2 - Cost Analysis:** An important factor in the evaluation of a project request is the overall cost it will incur. Cost estimates are developed in conjunction with the Department of Public Works and the Office of Property Management to validate the project costs proposed in the agency submissions. Furthermore, future operating costs are estimated in order to provide supplementary information regarding out-year liabilities once the project is implemented (Operating Budget Impacts).

**Function 3 - Financing Analysis:** The Office of the Chief Financial Officer is committed to finance on-going capital projects in a manner in which:

- Funding is committed for the entire CIP
- The District receives the lowest cost of funding available
- The useful life of capital projects matches and does not exceed the average maturity of the liability used to finance the assets

As such, the OBP reviews the useful life of each project and presents this information to the Office of Finance and Treasury (OFT). OFT develops a strategy to match the underlying assets with an appropriate means of financing.

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<sup>3</sup> Appendix E provides a complete breakdown of all projects in the CIP by priority criteria.

*Step 4: Approval*

After reviewing all capital project requests with regard to scope of work, projected cost, and financing alternatives, the CRT evaluates the projects based on their physical attributes, implementing feasibility, and physical/economic impact on the community. The CRT then formulates a recommendation in the form of a CIP. The proposed “Capital Improvements Plan” is then submitted to the Mayor, Council, and Authority for approval and then to Congress for final Congressional approval.

## Phases of a Capital Project

It is assumed that all capital projects are actually the sum total of a series of sections, grouping types of tasks necessary to accomplish the goal of the project. These sections of similar task groupings are defined as “phases.” Each project in the CIP is approved and budgeted for five phases. However, in some instances projects only need funding for planned expenditures in one particular phase (i.e., major equipment acquisition). Phases are referenced numerically and alphabetically, and are as follows:

- |                       |                                    |
|-----------------------|------------------------------------|
| 1. Design             | (also known as Phase 1 or Phase A) |
| 2. Site               | (also known as Phase 2 or Phase B) |
| 3. Project Management | (also known as Phase 3 or Phase C) |
| 4. Construction       | (also known as Phase 4 or Phase D) |
| 5. Equipment          | (also known as Phase 5 or Phase E) |

The first phase of any capital project is **Design**. This includes all work completed to define the scope and content of the project. Architects and engineers that agencies employ to analyze the planning for a project would be funded from the design phase. Costs associated with solicitations and proposals also fall within this phase. This phase also would be used to fund any processes necessary for selection of contracts.

The second phase of a capital project is **Site Acquisition**. This phase covers costs associated with site preparation expenses, legal work or probable demolition and hauling expenses. Site appraisal and survey would also be funded through this phase.

The third phase of a capital project is **Project Management**. All internal agency management and support costs from design to construction are paid through this phase. Activities within this phase include any work of the project manager and other staff.

The fourth phase of a capital project is actual **Construction** completed for a facility. This would include any construction contract work done by other District agencies as well. This phase funds work on a particular construction contract.

The last phase, **Equipment**, funds any disbursements for specialized equipment. Equipment funded through capital has to be that which is permanently connected to the

physical plant and designed to be an integral part of the facility. Equipment defined for funding by this phase includes items such as the purchase and installation of elevators, boilers, generators, and HVAC systems. The Capital Program will not fund office equipment or personal computers. Items such as these are expected to be funded by the operating budget.

## Project Milestones

Each phase of a project is monitored and tracked using “milestone” data. Milestone data allows the Capital Program to determine whether projects are being completed on time and within budget. Milestone data is provided by agencies in the quarterly Financial Review Process (FRP) and also in the annual budget submissions as justification for additional funding.

Milestone data includes such items as project authorization dates, original project cost estimates, contract award dates, revised completion dates, construction start dates and others. In an attempt to summarize the various elements of milestone data, the Capital Program includes status codes in the project description forms (PDFs). The following table is a list of status codes and their titles.

Status Code	Project Status Code Title
REQ	Authority not yet approved
SACR	Site acquisition required
SSP	Site selection pending
PRES	Under preliminary study
SACP	Site purchase underway
PRED	Pre-design
UD	Under design
DC	Design complete
DESR	Under design review
INVB	Invitation to bid
BIDSR	Bids received
CAP	Contract award pending
CA	Contract awarded
EO	Equipment ordered
CANTP	Contract awarded/NTP issued
UC	Under construction
MP	In multiple phases
ER	Equipment received
EI	Equipment installed

FY 2001 to FY 2006 Capital Improvements Plan and FY 2001 Capital Budget

<b>CNC</b>	Completed but not closed
<b>CWC</b>	Construction completed, with claims
<b>CWP</b>	Construction completed, with payments
<b>DEF</b>	Deferred
<b>CLOSE</b>	Closed in SOAR
<b>CANCE</b>	Work has been canceled
<b>HOLD</b>	Work temporarily halted
<b>INACT</b>	Inactive

## The Comprehensive Plan

The Capital Improvements Plan must be consistent with the District's Comprehensive Plan. The following is a brief synopsis of the Comprehensive Plan and its role in the development of the CIP.

The Comprehensive Plan is a master land use and development document for the District of Columbia. The Office of Planning creates the Comprehensive Plan in partnership with the National Capital Planning Commission, District agencies, stakeholders, citizens and the private sector. It is approved by the Mayor and Council and is codified by law - Title 10 (Planning and Development) of the District of Columbia Municipal Regulations (Subtitle A: Comprehensive Plan). It is updated on a regular schedule (usually every 7-10 years) and consists of 11 chapters under the following titles:

Chapter	Title
Chapter 1	Comprehensive Plan: General
Chapter 2	Comprehensive Plan: Economic Development
Chapter 3	Comprehensive Plan: Housing
Chapter 4	Comprehensive Plan: Environmental Protection
Chapter 5	Comprehensive Plan: Transportation
Chapter 6	Comprehensive Plan: Public Facilities
Chapter 7	Comprehensive Plan: Urban Design
Chapter 8	Comprehensive Plan: Preservation of Historic Features
Chapter 9	Comprehensive Plan: Downtown Plan
Chapter 10	Comprehensive Plan: Human Services
Chapter 11	Comprehensive Plan: Land Use Element

The Comprehensive Plan includes both District of Columbia (local) and federal elements. There are 11 District elements and eight federal elements. The District elements have been enacted by the Council of the District of Columbia and approved by the Mayor since April 10, 1984. The federal elements include *Federal Goals for the Nation's Capital* and have been prepared and adopted by the National Capital Planning Commission.

The major themes of the Comprehensive Plan include:

- Stabilizing and improving District neighborhoods
- Increasing the quantity and quality of employment opportunities in the District
- Developing a living downtown
- Preserving and promoting culture and natural amenities
- Respecting and improving the physical character of the District
- Preserving and ensuring community input
- Preserving the historic character of the District
- Reaffirming and strengthening the District's role as the economic hub of the National Capital Region
- Promoting enhanced public safety
- Providing for diversity and overall social responsibilities

The Comprehensive Plan includes a number of general provisions established in order to ensure an ongoing planning process that provides for the following:

- Continued refinement and implementation of District elements
- Periodic review of progress in realizing District elements object and policies;
- Provisions for information about the District; and
- Opportunities for community review and comment.

The policies established in support of the planning process objectives are to accomplish the following:

- Continue refinement of the District elements and to track the progress or problems in realizing District objectives and policies.
- Provide information on a continuing basis through reports, displays, exhibits, presentations and meetings.
- Prepare periodically, a report to the Council of the District on the progress of implementing the District elements (this report is the responsibility of the Mayor)
- Review existing plans to conform to the District elements.

Consistency with the Comprehensive Plan is essential to developing a strategy for construction or rehabilitation of public infrastructure in the District. To be included in the CIP, projects must:

- Adhere to the major themes of the Comprehensive Plan
- Meet the policy objectives of the Comprehensive Plan
- Comply with the general provision of the Comprehensive Plan

## The National Capital Planning Commission

It is very important to recognize the ideas and vision of the federal government for the District in the development of the CIP. The National Capital Planning Commission (the "NCPC") is the federal government's capital planning authority in the national capital region. Individuals on the NCPC include three members appointed by the President, two members appointed by the Mayor of the District of Columbia, the Secretaries of Defense and of the Interior, the Administrator of General Services, the Chairman of the Senate Committee on Governmental Affairs, the Chairman of the House of Representatives Committee of Government Reform, the Mayor and the Chairman of the Council of the District of Columbia.

In December 1997, the NCPC published the *Extending the Legacy* document. *Extending the Legacy* is a vision for planning in the Nation's Capital over the next 50 to 100 years. It sketches the big picture of what the District might look like many years from now. The planners, architects, citizens, government officials, and others who developed *Extending the Legacy* coordinated their efforts with the District's Comprehensive Plan. As mentioned, the Comprehensive Plan is published jointly by the Commission and the District and acts as the primary development document for Washington D.C.

For more information on *Extending the Legacy*, please contact:

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## Spending Affordability: Meeting Financial Management Targets

One of the most important factors in the CIP development process is determining spending affordability. Historically, spending affordability was directly related to the issuance of long-term general obligation bonds, operating budget (Paygo), and grants. The size and financial health of the capital program was therefore constrained and dependent upon the ability of the Operating Budget to absorb increased debt service amounts and/or operating requirements for capital expenditures.

During the early part of this decade, the District did not properly manage its financial operations and programmatic functions. Over time, this produced a number of negative consequences that resulted in the fiscal crisis of FY 1995. Some of the negative consequences included:

- Downgrades to the District's credit ratings
- Limited or no access to capital markets
- Higher interest rates on capital borrowings
- Diminished ability to proceed with programmatic objectives

Over the past four years, the Mayor, Council, Financial Authority and the Office of the Chief Financial Officer have been working diligently to improve the District's financial position and provide additional capital funding at lower borrowing costs. In FY 1997 the first real operating surplus in 10 years was achieved, and the District's credit ratings were raised. In FY 1998 the District achieved a \$450 million surplus as a result of improved tax collection and increased oversight of grant revenue collection and expenditure control. In FY 1999, The District restructured its debt in order to realize savings of approximately \$60 million.

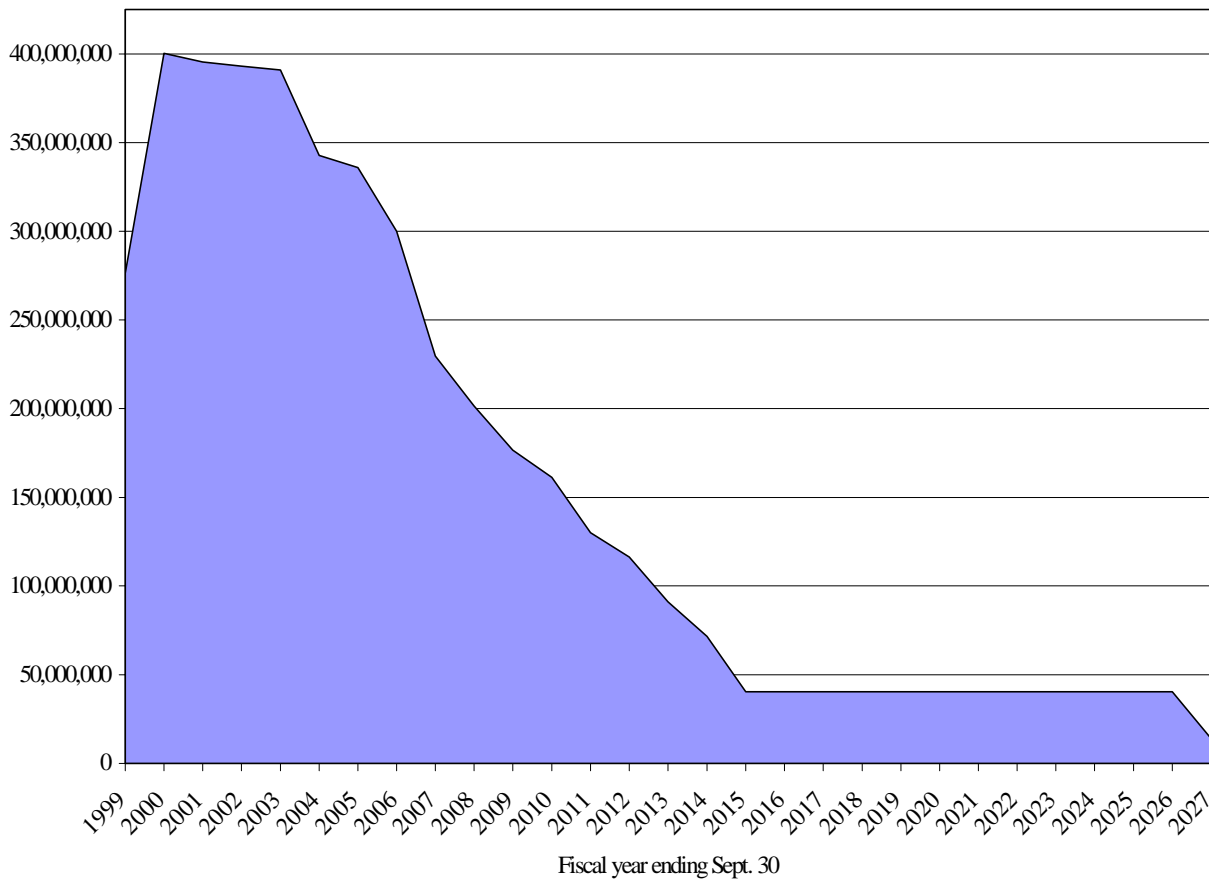
In this new environment, financial objectives are changing. As such, the Office of the Chief Financial Officer is working with the stakeholders to meet specific financial management targets. These targets are presented below. They are also outlined in the FY 2001 Operating Budget.

- Establishing a positive fund balance
- Maintain a balance between revenue and expenditure growth rates (structural balance)
- Lowering the debt burden
- Achieving investment grade bond ratings from all three major rating agencies

In meeting these financial management targets, the District determines spending affordability in the Capital Program.

*Financial Management Target: Lowering the Debt Burden*

The District's median debt burden is much higher than other state or city jurisdictions and is expected to increase due to continuing population decline. The problem is exacerbated by the District's debt structure, which is highly front-loaded, with the majority of its debt obligations coming due and payable over the next four to six years. However, as result of the debt restructuring, the District has moved closer to a level debt service stream. The chart below shows the District's outstanding debt.

**Outstanding Debt Service**

The District has amortized most of its bond issues over 20 years. In addition to the 20-year amortization structure, the District financed an operating deficit in 1991 with an intermediate term repayment structure. Only within the last three fiscal years has the District amortized its bonds over 30 years to better match the useful life of the asset being financed. These amortization structures have caused the District's debt to be heavily frontloaded with repayment principal of 39% and 72% within 5 and 10 years, respectively.

The FY 2001 to FY 2006 Capital Improvements Plan (CIP), proposes that the District fund \$1.8 billion in new and on going capital projects (excluding the Highway Trust Fund), of which \$1.63 billion qualify for long-term (20 - 30 year) financing and \$168 million for intermediate-term (10-15 year) financing. Assuming the Capital Improvements Plan is approved and is financed with 30 and 15-year bonds, respectively, the District's debt service as a percent of general fund revenues (local) will remain at approximately 12% for FY 2001.

*Financial Management Target: Improving Investment Grade Bond Ratings from All Three Major Rating Agencies*

Credit ratings evaluate the credit worthiness of a jurisdiction and the credit quality of the notes and bonds the jurisdiction issues. Specifically, credit ratings are intended to measure the probability of the timely repayment of principal and interest on notes and bonds issued by the District. Potential investors utilize credit ratings to assess their repayment risk in loaning the District funds for capital and short-term operating needs.

There are three major agencies that rate the District's debt: Fitch IBCA, Inc., Moody's Investors Service, and Standard & Poor's Corporation. A summary of agency credit ratings categories for long-term debt is provided in the table below.

Summary Rating Agency Credit Ratings for Long-term Debt			
Investment Attributes	Fitch IBCA	Moody's	Standard and Poor's
Highest Quality	AAA	Aaa	AAA
High Quality	AA	Aa	AA
Favorable Attributes	A	A	A
Medium Quality/Adequate	BBB	Baa	BBB
Speculative Elements	BB	Ba	BB
Predominantly Speculative	B	B	B
Poor Standing	CCC	Caa	CCC
Highly Speculative	CC	Ca	CC
Lowest Rating	C	C	C

Source: Public Finance Criteria for Fitch, IBCA, Moody's Investor Service and Standard and Poor's Corporation

During FY 1995, the District's unenhanced general obligation debt was downgraded by all three rating agencies. Since 1998, each rating agency has issued a series of upgrades to the District's bond rating. The agencies currently rate the District's long-term, general obligation bonds, as well as surrounding counties and comparable cities as follows:

Summary Rating Agency Credit Ratings of Long-term Debt			
Municipalities	Fitch IBCA	Moody's	Standard and Poor's
<i>District of Columbia</i>	BBB	Baa3	BBB
Fairfax Co., VA	AAA	Aaa	AAA
Montgomery Co., MD	AAA	Aaa	AAA
Prince Georges Co., MD	AA	Aa3	AA
Detroit	BBB	Baa2	BBB
New York	A-	Baa1	BBB+
Philadelphia	BBB	Baa	BBB

In FY 1999, the District received upgrades to its bond ratings from all three rating agencies. S&P – BBB, Moodys – BAA and Fitch - BBB. The advancement of the bond rating by these agencies will make the District's bonds more marketable, hence resulting in a lower cost of capital to the District.

Information considered when assessing the District's credit quality include:

- Economic base
- Financial performance
- Management structure
- Demographics
- Debt burden

Credit ratings are very important to the Capital Program. They affect the District's cost of capital, as well as represent an assessment of the District's financial condition. As stated earlier, the cost of capital plays a major role in determining spending affordability. Higher costs for capital financing diminish the ability of the Capital Program to proceed with programmatic objectives. In short, higher costs for capital results in fewer bridges rehabilitated, roofs repaired and facilities renovated.

## Major Assumptions

A number of assumptions must be established in order to develop a comprehensive Capital Improvement Plan budget. Due to the unique and changing nature of the District's organizational structure and financial position, it is difficult to precisely forecast revenues, expenditure patterns, costs, and other key financial indicators. Nonetheless, the following primary assumptions were used to develop this CIP:

- The capital expenditure target for the FY 2001 to FY 2006 CIP is based on the assumption that the District can meet its FY 2001 Operating Budget's current and future expenditure targets as established by the CIP.
- The FY 2001 Operating Budget will be sufficient to provide for:
  1. Lease payments for the District's Master Lease Program used to finance certain equipment projects.
  2. Paygo capital used to finance certain initiatives with shorter useful lives.
  3. Debt service on intermediate and long-term debt financing.